

**LEGISLATIVE SERVICES AGENCY  
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

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**FISCAL IMPACT STATEMENT**

**LS 6638**  
**BILL NUMBER: SB 535**

**DATE PREPARED:** Feb 23, 1999  
**BILL AMENDED:** Feb 22, 1999

**SUBJECT:** Property tax add-back.

**FISCAL ANALYST:** Diane Powers  
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**FUNDS AFFECTED:** ☒ **GENERAL**  
☒ **DEDICATED**  
**FEDERAL**

**IMPACT:** State

STATE IMPACT	FY 1999	FY 2000	FY 2001
State Revenues		(42,100,000)	(44,300,000)
State Expenditures			
Net Increase (Decrease)		(42,100,000)	(44,300,000)

**Summary of Legislation:** (Amended) This bill provides that fifty percent of property taxes deductible under the Internal Revenue Code are not to be added back to income in determining Indiana Adjusted Gross Income Tax or the Financial Institutions Tax.

**Effective Date:** January 1, 1999 (retroactive).

**Explanation of State Expenditures:** There will be some administrative costs to the Department of Revenue to revise tax forms, instructions and computer programs to accommodate this change. These expenses will come from their existing budget.

**Explanation of State Revenues:** (Revised) This bill is effective for tax years beginning January 1, 1999 and will affect revenue collection beginning in FY 2000. The total estimated loss of income tax revenue would be \$42.1 M in FY 2000 and \$44.3 M in FY 2001.

**Business property taxes:** Business property taxes are added back on corporate and individual income tax returns. Based on a sample of *corporate income tax* returns, it is estimated that the revenue loss in corporate gross, adjusted gross income and supplemental net income taxes due to **not** adding back 50% of these property taxes would be \$21.15 M in FY 2000 and \$22.1 M in FY 2001.

The 1995 statistics of *individual income tax* returns indicate that \$845.1 M was added back for taxes paid by individuals who had property taxes deducted on their federal returns for business property. The individual income tax returns indicated that taxes paid will continue to increase at an average rate of **6%** for the next few years. Applying this increase to 50% of the amount of taxes that would not be added back on the individual income tax returns, would result in an estimated revenue loss of approximately \$19.25 M in FY 2000 and \$20.4 M in FY 2001.

**Financial Institution Tax:** Based on the FY 1997 *financial institutions tax* returns, it is estimated that these taxpayers added back approximately \$537 M in property taxes. When taking into account the apportionment factor, the estimated revenue loss from not adding back 50% of these taxes will result in a revenue loss from the financial institutions tax of \$1.7 M in FY 2000 and \$1.8 M in FY 2001.

The total loss of revenue from eliminating 50% of the property tax add-back would be \$42.1 M in FY 2000 and \$44.3 M in FY 2001.

Revenue from corporate gross income tax, adjusted gross income tax, supplemental net income tax and the financial institution tax is deposited in the General Fund and the Property Tax Replacement Fund.

**Explanation of Local Expenditures:**

**Explanation of Local Revenues:** The change in the calculation of Indiana taxable income will also reduce the amount of revenue collected for counties that impose a local option income taxes.

**State Agencies Affected:** Department of Revenue.

**Local Agencies Affected:** Counties with a local option income tax.

**Information Sources:** Local Government Data Base; Department of Revenue- Individual Income Tax Statistics, Financial Institutions Income Tax Statistics; December 17, 1998 Revenue Forecast- State Budget Agency.